



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson  
Director*

## MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, August 17, 2012  
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Tom Manos, Chair of the ASRS Board, called the meeting to order at 8:36 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona.

### **1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. Tom Manos, Chair  
Mr. Tom Connelly  
Professor Dennis Hoffman  
Mr. Kevin McCarthy  
Mr. Brian McNeil  
Mr. Jeff Tyne

Absent: Mr. Mike Smarik

Two vacant positions.

A quorum was present for the purpose of conducting business.

### **2. Presentation Regarding Government Finance Officers Association (GFOA) Financial Reporting Awards**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, stated the ASRS received the Government Finance Officers Association (GFOA) Award for excellence in financial reporting for the June 30, 2011, Comprehensive Annual Financial Report (CAFR). Mr. Guarino noted this is the twenty-third year in a row the ASRS has received the award. A Certificate of Achievement is presented by the GFOA to those government units whose annual financial reports are judged to adhere to program standards and represents the highest award in government financial reporting. Mr. Guarino thanked Ms. Nancy Bennett, Chief Financial Officer, for her efforts in completing the CAFR, as well as the following staff who had a substantial part in the ASRS receiving the award: Rochelle Witharana, Lupita Breland, Eric Glass, John Maczko, Julie Walker, Tonia Nemecek, Lorin Rhue, Liz Rozzell, Nikki Caprara, Debbie Motta, Kristin Berry, Lisa Dailey, Lesli Sorensen, and Brian Crockett.

In addition, the ASRS published its first Popular Annual Financial Report (PAFR) for the fiscal year end June 30, 2011, and has received the GFOA Award for Outstanding Achievement for the 2011 PAFR. Mr. Guarino recognized the following staff who had a substantial part in the ASRS receiving the award: Paul Matson, Nancy Bennett, Rochelle Witharana, John Maczko, Julie Walker, and Nikki Caprara.

### **3. Approval of the Minutes of the June 15, 2012 Public Meeting of the ASRS Board**

**Motion:** Professor Dennis Hoffman moved to approve the minutes of the June 15, 2012 Public Meeting of the ASRS Board. Mr. Jeff Tyne seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

### **4. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Mr. Charles Gersten's Appeal Regarding Annuity Options for Alternate Payees**

Ms. Jothi Beljan, Assistant Attorney General, presented the facts of Mr. Charles Gersten's case to the Board. Mr. Gersten was not present. A representative of Mr. Gersten was not present.

**Motion:** Professor Dennis Hoffman moved to accept the ruling of the Administrative Law Judge to uphold the Director's determination that Alternate Payee Charles Gersten is not entitled to choose his own retirement annuity election. Mr. Jeff Tyne seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

### **5. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Ms. Alison Yancy's Appeal Disputing a Workers' Compensation Benefit Offset to Her ASRS Long Term Disability Benefit**

Ms. Beljan presented the facts of ASRS member Ms. Alison Yancy's case to the Board. Ms. Yancy was not present. A representative of Ms. Yancy was not present.

**Motion:** Professor Dennis Hoffman moved to accept the ruling of the Administrative Law Judge to uphold the Director's determination that ASRS member Ms. Alison Yancy's LTD benefit was properly offset by workers' compensation benefits pursuant to A.R.S. § 38-797.07. Mr. Jeff Tyne seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

### **6. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Mr. Devin Millington's Appeal Disputing a Salary Offset to His ASRS Long Term Disability Benefit**

Ms. Beljan presented the facts of ASRS member Mr. Devin Millington's case to the Board. Mr. Millington was not present. A representative of Mr. Millington was not present.

**Motion:** Mr. Kevin McCarthy moved to accept the ruling of the Administrative Law Judge to uphold the Director's determination that ASRS member Devin Millington's LTD benefit was properly offset by wages or employment related pay pursuant to A.R.S. § 38-797.07. Professor Dennis Hoffman seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

## **7. Presentation, Discussion and Appropriate Action Regarding Legal Advice Regarding Notice of Claim filed August 2, 2012**

Mr. Tom Manos, Board Chair introduced the topic.

**Motion:** Mr. Tom Connelly moved to go into executive session. Mr. Kevin McCarthy seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

The Board adjourned from this executive session at 9:05 a.m. and announced they would go into executive session to discuss the next topic, upon the appellant's request.

## **8. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Mr. John Barelli's Appeal Requesting ASRS Long Term Disability Benefits**

The Board discussed the topic in executive session. Mr. John Barelli was present via teleconference and his attorney, Mr. Charles Wallace, was present in person. Mr. Brian McNeil recused himself and did not actively participate. The Board reconvened to regular session at 9:49 a.m.

**Motion:** Mr. Kevin McCarthy moved to accept the ruling of the Administrative Law Judge to uphold the Director's determination that John Barelli is ineligible for ASRS LTD benefits. Professor Dennis Hoffman seconded the motion.

By a vote of 5 in favor, 0 opposed, 1 abstention, 1 excused, and 2 vacancies, the motion was approved. Mr. Brian McNeil recused himself from the discussion and did not vote.

## **9. Presentation, Discussion and Appropriate Action Regarding the ASRS Proposed Budget Request for Fiscal Years 2014 and 2015**

Mr. Guarino addressed the Board regarding the ASRS Proposed Budget Request for Fiscal Years 2014 and 2015. Ms. Martha Rozen, Chief of Administrative Services, presented the proposed budget, explaining the three main categories represented a purposeful technology investment. She noted staff and the Operations Committee are recommending a request which includes the first two years of a five-year technology project with total associated funding requirements of \$10,214,500. The budget request includes:

- Base Operating Budget
- Oracle Forms and Reports Modernization project – modernizing to Java, re-engineering processes to increase productivity, reduce costs, mitigate risk, improve member satisfaction and turnaround time, extend life cycle of business applications through 2025.
- Technology Risk Management strategies –software licensing, maintenance, support agreements, technology enhancements, automation of processes, and security assessment and training.
- Technology Resources Conversion to Full Time Equivalents (FTE) – convert twelve external technology resource positions to FTEs to support technology core business functions and ongoing software development.
- Long Term Disability Program Administration

**Motion:** Mr. Jeff Tyne moved to approve the budget request for Fiscal Year 2014 in the amount of \$26,681,500 and the budget request for Fiscal Year 2015 in the amount of \$27,218,500. The total amounts requested for the operating budget in each fiscal year may change due to rate adjustments determined by the Arizona Department of Administration. This request includes the first two years of a five-year technology project with total associated funding requirements of \$10,214,500. Professor Dennis Hoffman seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

#### **10. Presentation, Discussion and Appropriate Action Regarding the ASRS Total Fund Performance Review for the Period Ending March 31, 2012**

Mr. Gary Dokes, Chief Investment Officer; Mr. David Underwood, Assistant Chief Investment Officer; and Mr. Dan LeBeau, Senior Analyst, NEPC, addressed the Board regarding the Total Fund Performance Overview for the period ending March 31, 2012, highlighting specific areas of interest and concern.

The Total Fund Performance for the period ending March 31, 2012 is:

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception (6/30/75)
Total Fund	8.5%	4.5%	18.4%	3.1%	5.8%	9.9%
Interim SAA Policy	8.5%	4.0%	18.0%	3.0%	5.5%	9.7%
Excess Return	0.0%	0.5%	0.4%	0.1%	0.3%	0.2%

\*Interim SAA Policy: 31% S&P 500/6% S&P 400/6% S&P 600/13% MSCI EAFE/2% MSCI EAFE Small Cap/3% MSCI Emerging Markets/4% Russell 2000 (lagged one quarter)/24% Barclays Capital Aggregate/2% Barclays Capital High Yield/6% NCREIF ODCE (lagged one quarter)/3% Dow Jones/UBS Commodities Index.

Note: Interim SAA Policy includes a proration of 3% Private Equity, which is unfunded. Private Equity was prorated to domestic equity.

#### **11. Presentation, Discussion and Appropriate Action Regarding the Fixed Income Program Review**

Mr. Dokes, Mr. Al Alaimo, Fixed Income Portfolio Manager, and Mr. LeBeau, addressed the Board regarding the fixed income program review. As of March 31, 2012, the market value of the ASRS Fixed Income program was approximately \$5.0 billion or 18% of total assets. The ASRS fixed income asset class has historically achieved net investment results greater than those of its benchmark. Fixed income assets are managed in core, high yield bond, and intermediate government/credit strategies, approximately 75% of which is managed passively.

As of March 31, 2012, the market value of the ASRS public opportunistic manager(s) assets was approximately \$0.8 billion or 2.8% of total assets. Public opportunistic investments are managed in closed end funds and separately managed portfolios consisting primarily of fixed income strategies, and are viewed in that context.

## **12. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events**

Mr. Matson presented the Director's Report. He highlighted the Securities Lending Report, providing a high-level overview of the securities lending industry and processes.

## **13. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Operations Committee Meetings**

Mr. Jeff Tyne, Operations Committee (OC) Chair, provided an update on the July 8, 2012 OC meeting, noting the following topics were discussed:

- a. Budget Request for FY 2014/2015
- b. External Security Audit Update
- c. Internal/Employer Audits

Mr. Tyne noted the health insurance contract renewal, web development, and internal audit would be discussed at the upcoming September 27, 2012 OC meeting.

## **14. Presentation and Discussion with Respect to Informational Updates Prior and Upcoming External Affairs Committee Meetings**

Mr. Kevin McCarthy, External Affairs Committee (EAC) Chair, said the EAC will meet on September 7 and September 18, 2012 to discuss recommendations for the upcoming Legislative Session. He noted the October 5, 2012 meeting was rescheduled to September 18, 2012.

## **15. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Investment Committee Meetings**

Mr. Tom Connelly, Chair, Investment Committee (IC), and Mr. Dokes provided an update on the prior and upcoming IC meetings. Mr. Dokes noted the next IC meeting will take place August 27, 2012, and the Cortex Governance Study and LTD program will be discussed.

## **16. New Agenda Items**

Mr. Connelly asked if GASB could be discussed soon. Mr. Matson noted GASB will be a topic at the September 21, 2012 Board meeting, at which Strategic Planning will be a main focus, along with governance.

## **17. Call to the Public**

No members of the public requested to speak.

**18. The next ASRS Board meeting is scheduled for Friday, September 21, 2012, at 8:30 A.M., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

**19. Adjournment of the ASRS Board**

Mr. Manos adjourned the Board meeting at 11:43 A.M.

ARIZONA STATE RETIREMENT SYSTEM

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Lisa Maddox  
Board Secretary

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Date

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Paul Matson  
Director

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Date